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SUBJECT: DENIZLI: TEXTILES REIGN SUPREME NEAR TURKEY'S "COTTON CASTLE"

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¶1. (SBU) Summary: Turkey's Denizli province, located just east of the Port of Izmir, is yet another example of how Turkey's economic recovery is trickling down to its diverse regions. One of Turkey's largest textile producing regions, companies who previously lost U.S. business at the end of the WTO Multi-Fiber Agreement have "moved up the value chain" and been able to reacquire lost customers because U.S. consumers are willing to pay more for Turkish quality and reputation. In addition to textiles, the region produces iron, steel and copper products, exports the largest amount of Turkish travertine and marble of any region, and is developing vineyards and greenhouse facilities. Even though this economic boom has brought above-average growth, Denizli's unemployment rate still rests at around 5%. The city's leadership must be mindful, however, that growth brings problems of its own and plan accordingly for the future. End summary.

¶2. (SBU) During a recent regional outreach meeting with business and political leaders in Denizli, officials painted a positive image of the city's growth and export potential. Turkey's 16th largest regional economy and one of its fastest growing industrial areas, Denizli's share of Turkish exports amounted to \$2 billion in 2006, 70% of which were textile exports. Located in the southwestern region just east of the port of Izmir, Denizli province also contains the thermal springs tourist destination of Pamukkale, which translates to "Cotton Castle."

Textiles Still King

¶3. (SBU) Surprisingly, Denizli textile producers provided a very different story about their business potential than their counterparts from other regions. During a meeting with the Denizli Chamber of Industry, representatives from companies currently producing home textiles and towels for such well-known U.S. companies as Pottery Barn, Williams-Sonoma, Restoration Hardware and T.J. Maxx told us that they experienced significant losses after the end of the WTO Multi-Fiber Agreement, when U.S. companies shifted orders to China and other low-cost suppliers. The U.S. companies have, however, subsequently returned to the Denizli producers because of the quality of their products and reliability of their services. One business representative told us that Williams-Sonoma had returned to his company exclusively for the production of its kitchen textiles because U.S. consumers will pay more for products "Made in Turkey" than those "Made in India," even though he conceded that the Indian quality is catching up to Turkish. The sector did experience significant losses in the production of low cost high volume ready-made apparel. One company previously produced large quantities of garments for Victoria's Secret but lost the business to China.

Expanding Export Potential

¶4. (SBU) Textiles are not the only sector flourishing in Denizli. According to the Denizli Chamber of Commerce, the area is also Turkey's largest exporter of marble and travertine (the region boasts Turkey's third largest reserves) and also produces iron, steel and copper products, including copper cables that are used by NASA. Vineyards in the region are trying to distinguish Denizli as a wine-producing region, and entrepreneurs are also trying to tap into the natural energy of the area's hot springs and develop geothermal greenhouses to grow tomatoes and possibly flowers. According to Denizli's Mayor, Nihat Zeybekci, Denizli's thermal springs provide a continuous energy source that could provide free energy to greenhouses throughout the year. He added that about 25% of the cost of operating greenhouses in Turkey's Antalya province is for energy production.

Dealing With Growth

¶5. (SBU) Denizli's city center population is about 700,000, while the population for the province is approximately 1.5 million. Due to the city's vibrant economy, it has attracted many workers from Turkey's smaller villages, leading to an average 3% growth rate (Turkey's average is about 1.7%). Its current rate of unemployment is one of the lowest in the country, between 4.5 - 5%, well below Turkey's overall 10% rate, and the Chamber of Industry told us that there are about 170,000 registered workers. While city officials tell us that Denizli can handle the influx of migrant workers, they do have concerns about the strain on its ageing infrastructure. As with other developing cities in Turkey, its waste water treatment system needs renovation. The Mayor told us that the current system

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loses about 50% of the water it transports, but the city has received a 70 million euro grant from the World Bank for water pipes.

Anatolian Tigers Moving West

¶6. (SBU) Comment: Denizli is yet another example of how Turkey's strong economic growth is driving the growth of new regional business centers. Its businesspeople have shown the strategic thinking needed for Turkey to remain a significant producer in the world textile market. Its vibrant business community works well with the city's business-minded administration (the Mayor also owns a successful textile manufacturing company), and the results show. With growth, however, comes new problems, and leaders must continue to plan well into the future to ensure that Denizli's population growth does not overwhelm its infrastructure.

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